



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, May 11, 2011
9:00 a.m.
8th Floor Conference Room, 40 Fountain Street

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m. Wednesday, May 11, 2011, on the 8th Floor Conference Room, 40 Fountain Street, Providence, RI.

I. Roll Call of Members

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire; John J. Meehan; Louis M. Prata, and Jean Rondeau.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

The following board members arrived after the roll call: Richard A. Licht, Thomas A. Mullaney, and Linda C. Riendeau arrived at 9:10 a.m.

II. Approval of Minutes

On a motion by Frank R. Benell, Jr., and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the draft minutes of the April 13, 2011 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairperson's Report

Treasurer Raimondo provided an investment update to the Board. She said the markets are strong and ERSRI continues to perform well. She stressed that ERSRI is facing some significant challenges in the pension system and said it is fair to assume that the pressure to remedy the challenges will intensify. Treasurer Raimondo thanked the Board for their work and commitment and welcomed working together. She stressed keeping communications open and her accessibility to discuss any and all issues. The Treasurer told the Board that she will be spending time talking to both active and retired employees and offered her services to the people in the Board's constituencies or leadership, as the Treasurer feels both education and communication are key goals in facing these struggles.

IV. Executive Director's Report

Director Karpinski noted that the Board members were in possession of a presentation by Gabriel, Roeder, Smith and Company (GRS), the Pension Application Processing Report and the Disability Subcommittee report. The Director also said the Board should be in possession of the two actuarial evaluations from GRS which were sent along with the board book.

The Director apprised the Board that responses to the Actuarial RFP were due to ERSRI last Friday May 6th. He said there were 6 firms that submitted bids, namely, Gabriel, Roeder, Smith and Company (the current firm), Buck Consultants, The Segal Company, EFI Actuaries, Cavanaugh Macdonald Consulting, LLC and Cheiron. Director Karpinski told the Board that he is having copies sent to the Procurement Subcommittee with score sheets. He said the committee will determine 3 finalists and will try to schedule a meeting for June 2 to review the committee's analysis. Final approval by the full Board will likely be in July.

Director Karpinski then said the Board Education Subcommittee met on Monday, May 9, 2011, to consider some proposals establishing a formal education process. The committee reviewed and discussed the proposals and voted to establish a formal education process with a defined curriculum. They determined that the subcommittee could then seek to secure appropriate faculties were appropriate. Director Karpinski said the committee determined that the first step was to hire a firm to develop a formal program and authorized him, via RFP, to procure a firm.

Director Karpinski then updated the Board on the fiduciary liability insurance. He said he received a preliminary quote from Alliant Insurance Company. He told the Board that Alliant was the 11th largest firm in the United States and established a program dealing with public pension funds to leverage cost in 2005. The Director said the program is not a pool nor is there any risk sharing. The program carrier is RLI Insurance and is A+ rated. RLI, through Alliant, has many other public plans including CALPERS, South Carolina, and The Highway Patrol System of Ohio.

Director Karpinski told the Board that costs of this program vary by plan. The three variables considered are the type of plan, the funding level and the asset base. He told the Board that the preliminary quote provided by Alliant yielded an annual fee of \$125,000 for a \$10 million dollar policy and \$79,000 for a \$5 million dollar policy. The Director apprised the Board that the high premiums quoted is caused by ERSRI's low funding.

Mr. Licht asked if ERSRI currently has fiduciary liability insurance; Director Karpinski said there is no such insurance at the present time. Mr. Licht then asked if any work has been done to determine if the States Sovereign immunity extends to ERSRI and if there were any other protections afforded to ERSRI in the general laws. Director Karpinski said the information he has provided is only preliminary at this point. He told the Board he would confer with attorney Robinson to evaluate any statutory protections and review any sovereign immunity if applicable. He also told the Board he would explore self-insurance as an option for the Board to consider.

Mr. Prata thanked Director Karpinski and Mr. John Midgley for their pension presentation for the approximately 40 firefighters recently held in Johnston, and he told the Board the members present were very appreciative.

Mr. Prata then asked the Treasurer about a recent newspaper article that discussed the Governor's and Treasurers' office hiring of legal counsel relating to the pension plan and bond disclosure. Mr. Prata, as a member of the procurement committee, questioned whether such a hiring should have involved the procurement committee and if any funds of the trust would be expended for work by the counsel. Treasurer Raimondo clarified the use of counsel and told the Board that no pension funds would be expended for the work being performed by the firm.

V. Presentation and Certification of the Actuarial Valuation as of June 30, 2010 by Gabriel, Roeder, Smith and Company for the Employees' and Municipal Retirement Systems.

Treasurer Raimondo gave her sincere thanks to GRS for expediting the preparation of the valuation. She said the State will now be able to have the most updated valuation in the next bond offering.

She then introduced Messrs. Joe Newton and Mark Randall of GRS to present the valuations as of June 30, 2010.

Mr. Newton began the presentation by saying the purpose of the valuation is to measure the System's liabilities and determine employer contribution rates for FY 2013 as well as provide other information for reporting and explain changes in actuarial condition of ERSRI.

Mr. Newton told the Board that the valuation is prepared as of June 30, 2010, using member data provided by ERSRI Staff, audited financial data, current benefit and contribution provisions as well as actuarial assumptions and methods previously approved by the Retirement Board from the last experience study. He said the plans covered will be ERSRI (State Employees and Teachers) and MERS (General Employees and Police and Fire). The SPRBT (State Police) and JRBT (Judges) will be presented at the June meeting.

Mr. Newton discussed the assets of the system and the impact of the -20% return in 2009. He said the market return in 2009 was a -20% (-5% in 2008). Mr. Newton told the Board that the baseline return was not 0%; rather it was 8.25% meaning that gains and losses were measured from the 8.25% target. Consequently, a -20% return is actually about a -28% return (-20% -8.25%). Mr. Newton told the Board that the +14% return in 2010 looks more like a +6% (14% -8.25%). Therefore, the loss in 2009 was more than four times as bad as the gain was good in 2010.

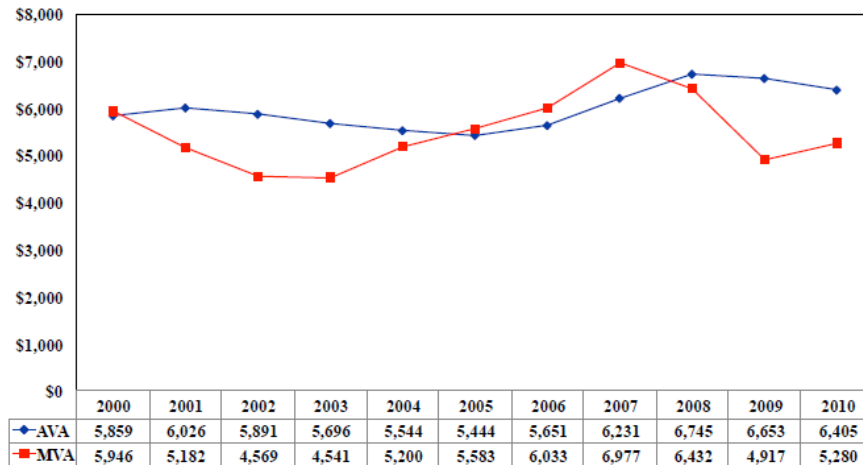
Mr. Randall said all actuarial calculations use an actuarial value of assets (AVA), not market value. This process smoothes the short-term volatility of the investment performance and AVA is used for smoother, more consistent contribution rates over time.

Mr. Newton then provided the Board with the following chart of market and AVA asset values over time:



Asset Values – State Employees and Teachers Combined

\$ Millions



MVA: Market Value of Assets
AVA: Actuarial Value of Assets

GRS

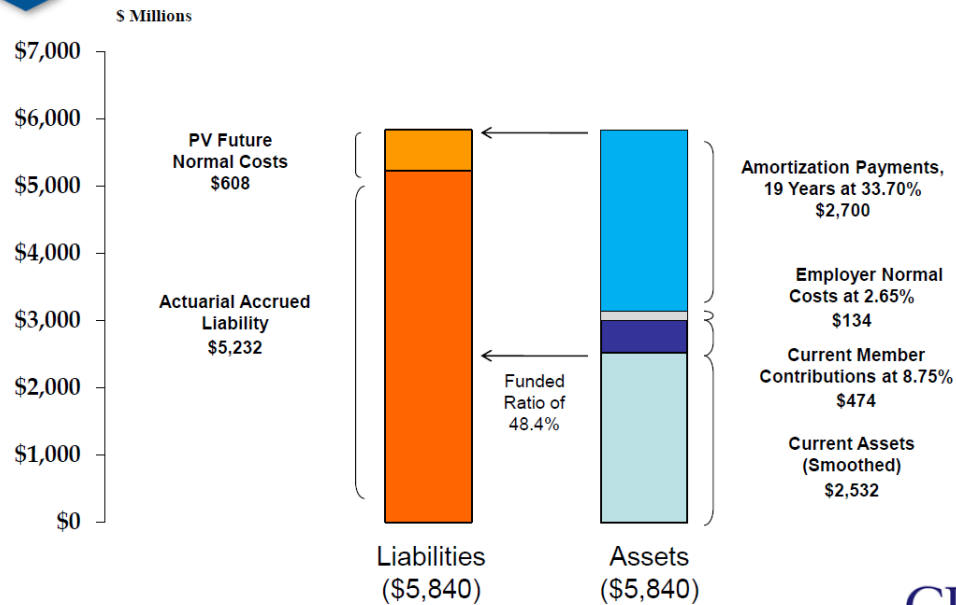
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Mr. Randall then discussed the membership of the plan with the Board. He said active membership for State Employees went from 13,305 in FY 2000 to 11,122 in FY 2010 and retirees went from 9,250 to 11,421 for the same period. For Teachers, active membership went from 13,607 in FY 2000 to 13,530 in FY 2010 and retirees went from 6,486 to 10,213 for the same period. Mr. Randall told the Board that there is now 1.0 active State Employee and 1.3 active Teacher for each retire. The ratio has decreased over the last ten years, from 1.4 and 2.1, respectively. He said this means there is less payroll to spread out the volatility in the investment performance thus contributions will become more volatile and may lead to a more conservative approach to asset allocation.

Mr. Newton then discussed the valuation results with the Board and provided the following chart:



Current Valuation Results Based on Current Contribution Levels



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GRS

Mr. Randall reviewed the change in employer contribution rate with the Board. He discussed projected funded ratios and employer contribution rate histories. He concluded by providing the following analysis of the change in contribution rate for State Employees and Teachers:



Change In Employer Rate – ERSRI

Basis	State Employees	Teachers
1. Employer contribution rate from 2009 valuation	22.98%	22.32%
2. Impact of changes		
a. Non-salary liability (gain)/loss	0.99%	0.43%
b. Salary (gain)/loss	(0.07%)	(0.06%)
c. Total payroll growth (gain)/loss	(0.03%)	0.94%
d. Investment experience (gain)/loss	2.68%	2.58%
e. Changes in assumptions	9.79%	9.04%
f. Changes in benefit provisions	0.00%	0.00%
3. Employer contribution rate from 2010 valuation	36.34%	35.25%

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GRS

Messr's Newton and Randall concluded their presentation for the State and Teacher plan by discussing various contribution strategies and investment return scenarios.

Mr. Newton then began a presentation of the MERS plan. Mr. Newton told the Board that as of the June 30, 2010 valuation, there were no new units, no closed units, no merged units, no new 20-year retirement elections for police and fire and no new COLA elections.

Mr. Newton provided the Board with the actuarial results of the MERS valuation. He said for MERS, the unfunded actuarial accrued liability (UAAL) for all units combined is \$430 million, compared to \$159 million from the prior year. The aggregate funded ratio (actuarial assets divided by actuarial accrued liability) for all units combined decreased from 88.3% to 73.6%. He told the Board that 18 units have funded ratios over 100% compared to 41 from the prior year. Mr. Newton told the Board that the results for individual units are shown in Table 7 of the actuarial valuation report provided to them.

Mr. Randall reviewed the change in employer contribution rate with the Board. He concluded by providing the following analysis of the change in contribution rate for MERS general and police and fire employees:



Change In Employer Rate – MERS

Basis	General Employees	Police and Fire
1. Average Employer contribution rate from 2009 valuation	9.59%	17.24%
2. Impact of changes		
a. Non-salary liability (gain)/loss	(0.69%)	0.30%
b. Salary (gain)/loss	(0.12%)	(0.43%)
c. Total payroll growth (gain)/loss	0.19%	0.15%
d. Investment experience (gain)/loss	2.42%	2.24%
e. Changes in assumptions	6.96%	12.40%
f. Changes in benefit provisions	<u>0.00%</u>	<u>0.00%</u>
3. Average Employer contribution rate from 2010 valuation	18.35%	31.91%

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GRS

Messr's Newton and Randall then concluded their presentation of the June 30, 2010 valuation.

Treasurer Raimondo thanked Messr's Newton and Randall for their presentation and the Board for their attention. She then asked for a motion to accept the rates as presented by GRS for the valuation period ending June 30, 2010.

On a motion by Jean Rondeau and seconded by Frank R. Benell, Jr., it was unanimously **VOTED: To accept the June 30, 2010 valuation results for the ERS and MERS plans as presented by GRS and certify the contribution rates for fiscal year 2013.**

VI. Administrative Decisions

None this Month

VII. Approval of the April Pensions as Presented by ERSRI

On a motion by John P. Maguire and seconded by William B. Finelli, it was unanimously **VOTED: To approve the April pensions as presented.**

VIII. Legal Counsel Report

Attorney Robinson updated the Board on a recent Superior Court decision in the *Pauline Richard vs. ERSRI* matter. Ms. Richard was a CNA, and had appealed the Board's denial of an accidental disability pension. The Superior Court affirmed the Retirement Board.

Attorney Robinson then notified the Board that the next matter for discussion would be a potential pension revocation action pursuant to R.I.G.L. §36-10.1, et seq. involving John A. Zambarano.

Consistent with Rhode Island General Laws section §42-46-5 (a)(2) regarding pending and potential litigation by the retirement system, a motion was made by William B. Finelli and seconded by Roger P. Boudreau to convene the Board in Executive Session to discuss the matter of *Zambarano v. Raimondo, et al., C. A. No. PC2011-2304*, and a possible pension revocation action against John A. Zambarano.

A roll call vote was taken to enter into Executive Session, the following members were present and voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Richard A. Licht; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Louis M. Prata; Linda C. Riendeau and Jean Rondeau. It was unanimously

VOTED: To convene the Board in Executive Session pursuant to Rhode Island General Laws section 42-46-5 (a)(2) to discuss pending and potential litigation involving John A. Zambarano and *Zambarano v. Raimondo, et al., C. A. No. PC2011-2304* pursuant to R.I.G.L. §36-10.1, et seq.

[Executive Session]

The Board thereafter convened in executive session.

[Return to Open Session]

Upon returning to open session, the Board noted for the record that the following votes had been taken in executive session:

A motion was made by Daniel L. Beardsley and seconded by Richard A. Licht to authorize Attorney Michael P. Robinson to initiate an action against John A. Zambarano pursuant to the Public Employee Pension Revocation and Reduction Act, in order to seek a judicial determination related to revocation or reduction of any retirement or

other benefit or payment of any kind to which Zambarano might otherwise be entitled, including with respect to disposition of any of Zambarano's contributions, and further to authorize the defense of the action brought by Zambarano.

A roll call vote was taken, the following members were present and voted Yea: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger; Daniel L. Beardsley; Frank R. Benell, Jr.; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Richard A. Licht; Thomas A. Mullaney; Louis M. Prata; and Jean Rondeau. The following members voted Nay: John P. Maguire; John J. Meehan and Linda C. Riendeau. There being 15 votes cast, 12 voted in the affirmative and 3 nay, consistent with Rhode General Laws §36-8-6, Votes of the Board – *Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was then

VOTED: To authorize the commencement of an action against John A. Zambarano pursuant to the Public Employee Pension Revocation and Reduction Act, in order to seek a judicial determination related to revocation or reduction of any retirement or other benefit or payment of any kind to which Zambarano might otherwise be entitled, including with respect to disposition of any of Zambarano's contributions, and further to authorize the defense of the action brought by Zambarano.

A motion was made by William B. Finelli and seconded by Roger P. Boudreau to exit executive session and return to open session. It was then unanimously

VOTED: To exit executive session and return to open session.

IX. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on May 6, 2011:

Name	Membership Group	Type	Action
1. Rhonda Varrica	State	Accidental	Deny
2. Robyn Carosi	Teacher	Disability	Approve
3. Anne Melvin	State	Accidental	Deny
4. Conceicao Medeiros	State	Accidental	Postponed
5. Olga Ortiz	State	Accidental	Postponed
6. Joanne Palazzo	Teacher	Accidental	Postponed
7. Carson Orellana, Jr.	Municipal	Accidental	Postponed
8. Tilda Lewis-Grant	Teacher	Ordinary	Approved with 1-year review

Name	Membership Group	Type	Action
9. Joseph DeCarlo	State	Ordinary	Approve
10. Lillian Rivera	Municipal	Ordinary	Approve
1. Jerry Prete	Municipal	Post-Retirement Review	Postpone

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday May 6, 2011 on item 5.

John J. Meehan recused himself from the vote on number 5.

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the recommendation of the disability subcommittee meeting of Friday, May 6, 2011 on items 2 and 8.

John P. Maguire recused himself from the vote on numbers 2 and 8.

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of May 6, 2011 on items 1, 3, 4, 6, 7, 9, and 10 and item 1 on the post-retirement review.

X. New Business

Treasurer Raimondo discussed two matters. She briefly updated the Board on the move to the new facility. The Treasurer apprised the Board that the move is on schedule for August. Mr. Prata requested the Board have an opportunity to see the facility. Treasurer Raimondo said she would arrange the visit when construction is completed.

Second, the Treasurer apprised the Board that consistent with past practice she planned to use the system actuary (GRS) to perform some analysis of the pension fund. She said the cost of the studies would be borne by the Treasurer's office and not the pension fund. Mr. Maguire asked the Treasurer how much and what type of analysis would be done. Treasurer Raimondo told the Board that presently, there were no specific studies defined but said any ones performed would be provided to the Board. There were no objections from the Board and Mr. Licht said he supported the Treasurers efforts to perform analysis.

XI. Adjournment

There being no other business to come before the Board, on a motion by Louis M. Prata and seconded by Gary R. Alger the meeting adjourned at 11:48 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director